Testimony of Alan Tonelson
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Good afternoon Mr. Chairman and members of the Subcommittee. My name is Alan Tonelson, and I am a Research Fellow at the U.S. Business and Industry Council Educational Foundation. The Foundation is the research arm of the U.S. Business and Industry Council, a national business organization comprised mainly of small and medium-sized domestic manufacturers. On behalf of the Council and the Foundation, thank you for the opportunity to testify today on Chinese influence on U.S. foreign policy through various U.S. institutions.

Since 1933, USBIC has championed policies that we believe serve the interests of our roughly 1,000 member companies, who are primarily domestic manufacturers, and the nation at large – ensuring that the United States retains at home a manufacturing base capable of safeguarding our national security and ensuring broad-based, solidly grounded prosperity.

My testimony will focus on the role of U.S. multinational companies. Business interests of all types have sought to influence American public policy-making since the founding of the Republic – in both lawful and unlawful ways. Today, advancing business perspectives on public issues has grown into a major industry here in Washington and wherever political power can be found in America on the state and local level. In the interests of truth in advertising, the U.S. Business and Industry Council is one such organization.

The explosive growth and systematic organization of business lobbying in Washington, in particular, has become a great concern for many Americans. As a result, it has attracted Congress' attention in the form of efforts to regulate campaign financing, and to require some public disclosure of lobbying activities. Yet because such proposals affect such fundamental issues as free speech and the role of money in politics, they have understandably generated major controversies.

One relatively new development on the business lobbying scene, however, that should deeply concern all Americans and their leaders is the growing tendency of American business interests to represent foreign concerns in the nation's capital – a development that has emerged alongside increasingly common efforts by these foreign interests themselves to participate in American politics and governance in ways that would not be available to Americans in their own countries. Unquestionably, one of the main foreign beneficiaries of this new form of American corporate lobbying has been the People's Republic of China.

Foreign lobbying in Washington generally has grown apace with the expanding role played by the American people and U.S.-owned companies in international trade and commerce – as producers, consumers, warehousers, distributors, borrowers, lenders, advertisers, and so many other capacities. Given the rapidly growing relative importance of U.S.-China economic relations, the level of business lobbying on China's behalf should be no surprise.

Nonetheless, given the range of not only economic but also national security interests at stake in America's relations with China (including in economic relations); given the importance of areas where the U.S. and Chinese diplomatic agendas do not coincide; and given the great uncertainties surrounding China's geopolitical future, business lobbying for China and the influence it creates in Beijing needs greater attention from the U.S. government.

China today influences U.S. policy through a variety of institutions and networks. Recently, Beijing has attracted attention by greatly expanding its use of dedicated Washington lobbying firms – companies with non-business as well as business clients. But two other ways of participating in American politics and policy remain more important by orders of magnitude. The first entails use of the capital's galaxy of business groups – usually comprised of or controlled by the multinational corporations that not only trade so extensively with China, but that invest heavily in the People's Republic as well. The second entails these companies' use of the plethora of policy research institutes that can be found in Washington (and New York) that they have been funding increasingly heavily.

Each of these types of Washington players has enabled China to achieve a critically important goal. The business groups that have directly lobbied so hard, so lavishly – and so successfully – for expanded trade with China have become a powerful force that Beijing can now count on to advance specific legislative and policy agendas – even when they are deeply unpopular with the American people. The battles in Congress starting in the 1990s over China's trade status have been leading examples. So are today's battles over the valuation of China's currency.

The think tanks have promoted China's interests in Washington by helping to shape the terms of America's national debate on China policy, and by greatly influencing perceptions of what subjects are legitimate to raise in this debate, and what subjects are out of bounds.

The business lobby groups in particular make extensive use of money and simple political muscle to advance their aims. Yet along with the think tanks, they have also depended on and exploited the power of information – especially information selectively released. Indeed, one of the most important strengths that American companies bring to their China activities is the near-monopoly they enjoy on the most important information bearing on bilateral economic relations – how much production and what kinds of technology are they transferring from the United States to China, and how many American jobs have been displaced in the process.

As a result, both the business groups proper and the think tanks have succeeded in propagating several critical beliefs about U.S.-China relations that, in my view, clash violently with reality, and thus undermine the formulation of effective China policies. The most important of these

China myths (which are not necessarily logically consistent) include:

>The view that the United States can and should strictly compartmentalize its China economic policy-making and its China security policy-making. In particular, the tremendous flow of hard currency and advanced technology channeled to China by current trade and investment policies has been deemed completely irrelevant to the ongoing Chinese military buildup that has elicited such concern from the Defense Department recently.

The significance of this compartmentalization cannot be overestimated. The relationships between economic policy and strength on the one hand, and national security policy and military strength on the other, will dramatically affect the future Sino-American balance of power – arguably the preeminent China concern for American policy-makers. Yet because they have been deemed unrelated, these relationships are rarely even discussed in policy circles.

>The view that continuing with such trade and investment policies will liberalize China politically and economically, and pacify it diplomatically.

>The view that U.S. export controls are largely to blame for the nation's relatively unimpressive export performance vis-a-vis China. If these controls were significantly eased, the New China Lobby insists, U.S. exports would skyrocket.

>The view that export controls and other unilateral economic sanctions are ineffective and even counter-productive, because they cover goods and technology that many other countries are happily selling to China. In addition, the Lobby has convinced many policymakers and opinion leaders that the United States is completely powerless to remedy this situation on its own.

>The view that China is rapidly opening up its domestic market to U.S. products and services – and indeed is rapidly liberalizing its economy across the board.

>The view that most U.S. direct investment has been serving a rapidly growing Chinese consumer market, and thus creates many more and better jobs for Americans than it displaces.

>The view that most of what China sells to the United States consists of cheap, labor-intensive consumer goods that generate jobs few Americans want.

The principal business interests and coalitions that have been carrying China's water in Washington are by now well known. They include the Washington offices of most individual members of the Fortune 500; specific industry associations ranging from the National Association of Manufacturers to the Information Technology Association of America; economy-wide business groups like the U.S. Chamber of Commerce, the Business Roundtable, and the National Foreign Trade Council; and more China-oriented organizations such as the U.S.-China Business Council.

Less well known is how effective these groups have been, not only in promoting an economic agenda that has greatly empowered and enriched China, but in turning this agenda into the centerpiece of U.S.-China policy, to the point at which it completely dominates non-economic concerns like national security.

James Sasser, former Democratic Senator from Tennessee and former U.S. Ambassador to China, has observed that "The Chinese really don't do any lobbying. The heavy lifting is done by the American business community." These efforts not only save the Chinese government money. According to Robert Kapp, former head of the U.S.-China Business Council, they help shield China from potentially adverse publicity. As Kapp told Bloomberg news in 2003, "If China spent a lot of money on expensive K Street lobbyists, they would get hammered and beaten to a pulp for trying to buy Congressional favor."

Just how heavy the corporate lobbying has been is indicated by a few facts and figures from one of the recent debates over extending China's Most Favored Nation (later called Normal Trade) status.

At the outset of the MFN struggle in 1996, the corporate China lobby appeared to face a major challenge. Not only had China already established itself as a predatory trader and a brutal violator of human rights. Three months before the vote, Beijing sought to cow Taiwan by firing missiles into local waters before a key election. Moreover, press reports were repeatedly describing Chinese sales of nuclear technology to Pakistan.

Yet in the year before the vote, the Lobby had provided $10 million in PAC money to House and Senate candidates. The U.S. Chamber of Commerce mobilized 200 state and local chambers for the trade fight, and covered Capitol Hill with representatives from 40 member companies. Meanwhile, the National Association of Manufacturers tasked its ten regional offices to pressure legislators at the state and local level. The pro-MFN forces won the critical June 27 vote in the House by a whopping 286-141.

In 2000, when Congress voted on granting China Permanent Normal Trade Status (and paved the way for China's entry into the World Trade Organization), the nonpartisan Center for Responsive Politics reported that Business Roundtable members contributed $58 million in soft money to national campaigns during that election cycle. Business Roundtable members and other multinational business groups spent nearly $20 million on advertising during the PNTR fight. According to a New York Times report, the battle was corporate America's "costliest legislative campaign ever."

Also especially noteworthy about these corporate efforts, moreover, was how often and freely they strayed from traditional commercial issues. Multinational lobbyists, for example, suddenly became political scientists and foreign policy experts, and regularly expounded on how expanded trade would foster democracy in China. These arguments were repeated by Members of Congress during the debate.

U.S. Chamber of Commerce President Thomas J. Donohue even passed himself off as an authority on national security issues during the PNTR controversy, even though he possesses no professional credentials in this area. In the spring of 2000, a bill was introduced by former Senators Fred Thompson and Robert Torricelli that would have sanctioned China for violating nonproliferation agreements and U.S. export control laws. The measure clearly threatened the passage of PNTR, and Donohue and his colleagues fretted that it would spark a wider crisis in U.S.-China trade relations. The Chamber President proceeded to publish an op-ed article in The Washington Post declaring the Thompson bill to be "unnecessary" because the "president has ample legal authority" to act on this front and U.S. nonproliferation laws "have been strictly enforced."

Of course, Donohue has a right to his opinion, just like anyone else. Why the Post – which also strongly backed PNTR – considered it worthy of any attention is unclear at best.

The year before, the U.S. Chamber of Commerce acted to represent Chinese positions in Washington following the accidental bombing of the Chinese embassy in Belgrade by a U.S. warplane. According to Myron Brilliant, the Chamber's vice president for Asia, the Chamber held a series of regular meetings between U.S. corporate executives and Chinese embassy officials aimed at ensuring that Chinese perspectives reached Members of Congress. The Embassy "was very concerned that their messages were not being heard on Capitol Hill. We want to communicate their message and share notes," Brilliant told Bloomberg News in 2003.

In this instance, the Chamber clearly went beyond its standard role of lobbying for policies that benefit both its members' economic interests and China's economic interests. It had become an agent of the Chinese government on a matter of national security with no direct implications for business at all.

More recently, business lobbyists stuck their noses into national security matters during the House's consideration of H.R. 3100. This East Asia Security Act, introduced by International Relations Committee Chairman Henry Hyde, would have sanctioned European companies that sell arms to China. Although the bill passed by 215-203, according to the Associated Press, business lobbying denied it the two-thirds margin needed to pass on the suspension calendar, a procedure usually reserved for non-controversial bills. In the AP's words: "Earlier during the roll call, more than 300 members had registered yes votes, but several lawmakers said people started changing votes after learning of opposition from the business community."

Comparatively little attention, however, has been paid to the concerted business effort to influence American perceptions of China and debates on China policy by funding policy research. Yet as former Century Foundation Fellow David Callahan has written, "The third river of private money flowing into politics is less well known, but nearly as wide and deep as the other two [direct lobbying and financing campaigns]. It is the money which underwrites a vast network of public-policy think tanks and advocacy groups."

Supporting think tanks enables businesses to convey their views through published articles, broadcast interviews, meetings with public officials, conferences, and many other vehicles. But by working through think tanks, the companies ensure that these opinions are viewed not as the selfish pleadings of rapacious businessmen, but as the objective, even scholarly analyses of the academics and quasi-academics on think tank staffs. The system resembles an intellectual version of money laundering.

Of course, many think tank specialists are genuine scholars or veteran public officials who are offering their analysis and advice with the best of intentions. Many have greatly augmented Americans' understanding of such subjects and provided valuable advice and information to policy-makers. But far too often, even material from truly independent-minded sources owes its existence to narrower private interests, and even more often, it is utilized solely to advance private agendas.

Moreover, there can be no doubt that multinational companies – including financial services firms and agri-business companies as well as manufacturers – not only are spending more than ever before on think tanks. The Carnegie Endowment for International Peace does not provide specifics, but does acknowledge the growing importance of outside funding sources and lists several multinationals on its list of major funders, including Boeing, AIG, Citigroup, General Electric, and Warburg Pincus.

Corporate memberships have contributed slightly more than 17 percent, or $5.5 million, of the Council on Foreign Relations' revenues in 2005 – up more than 24 percent from 2004. According to the latest American Enterprise Institute annual report, corporations contributed 23 percent of the organization's $24.4 million in 2003 revenue. For the Center for Strategic and International Studies, the 2004 figure was even higher – 34 percent.

The sheer number of multinational corporations supporting think tanks provides another indicator of their importance as a funding source. The Council on Foreign Relations has drawn heavily on the corporate sector throughout its long history, and today lists literally hundreds of the world's largest companies – from other countries as well as the United States – as funders, especially at the top levels of "President's Circle" (whose members donate $50,000 or more annually to the organization) and "Premium" ($25,000-plus annual contributions). Among the benefits of President's Circle membership in the Council's Corporate Program: " Invitations to two or three small private dinners each year with world leaders" and "A special invitation for a company executive to participate in at least one Council-sponsored high-level trip," which typically includes meetings with senior foreign government policy-makers.

Brookings' list of large corporate funders is almost as impressive. At its $500,000 annual level can be found Richard C. Blum, a California-based investment banker and his wife, Democratic Senator Dianne Feinstein. Both ran into conflict of interest charges in 1997 when The Los Angeles Times reported that his extensive dealings with China stood to benefit greatly from Senator Feinstein's wife's outspoken advocacy of expanded trade with China. In response, Blum agreed to donate to charity all the earnings from his China investments. Blum's China projects since have included an unsuccessful attempt to take control of a Chinese bank.
In the $250,000 to $499,000 annual category of Brookings donors appears the U.S. Chamber of

Commerce itself. Contributing between $100,000 and $249,000 annually to Brookings are Daimler Chrysler, Exxon Mobil, and the Property-Casualty CEO Roundtable, all of which have major China business interests. Other significant corporate donors to Brookings that are significant economic players in China include AT&T, Pfizer, Honda America, Boeing, BP America, Caterpillar, Citigroup, Itochu International, Matsushita, Kodak, and Dow Chemical. Pfizer and UPS are list among the Heritage Foundation's "Premier Associates" – its top total funding category. At the next level down – "Executive Associates" – are Altria, Boeing, and GM, while "Associates" include Chevron Texaco, Ford, Glaxo SmithKline, Honda North America, Johnson & Johnson, Lockheed Martin, and Merrill Lynch. Again, all these companies are big forces in U.S.-China trade and investment, or want to be.

Yet even these facts and figures can conceal the full extent of business-related think tank funding. For example, the Heritage Foundation states that only 6.1 percent of its 2004 revenues came from corporations. Yet many of the foundations, which supplied 26 percent of Heritage's 2004 funding, are corporate-related, such as the William E. Simon Foundation and the Bristol-Myers Squibb Foundation. The same holds for the GE Foundation, the JP Morgan Chase Foundation, the American Express Foundation, the Bank of America Foundation, and the numerous other corporate foundations that contribute to the Brookings Institution, as well as the multi-billion dollar Starr Foundation, named after a founder of AIG. Starr is listed as a major contributor to the Carnegie Endowment as well.

Corporate luminaries – many of whom in previous incarnations were senior U.S. government officials with major China responsibilities – fill the Boards of think tanks as well. The Council on Foreign Relations boasts Chairman Peter G. Peterson, a former Commerce Secretary and founder of The Blackstone Group; former U.S. Trade Representative Carla M. Hills, now a trade consultant; former Treasury Secretary and Citibank Vice Chairman Robert Rubin; Charlene Barshefsky, another former U.S. Trade Representative now lawyering in Washington; Time-Warner's Jeffrey Bewkes; former Under Secretary of State and Boeing Senior Vice President Thomas Pickering; and Maurice "Hank" Greenberg, former Chairman and CEO of AIG, former Chairman of the U.S.-China Business Council, and current Chairman of CV Starr & Co. and the Starr Foundation.

The Brookings Institution contains James Cicconi of SBC; two representatives from O'Melveny & Meyers, a Los Angeles-based law firm with a major practice in China; Larry D. Thompson Pepsico (whose Kentucky Fried Chicken unit dominates the foreign-owned fast food sector in China); James Robinson of Bristol-Meyers Squibb, and Vernon Jordan of the Washington law and lobbying firm of Akin Gump – which recently lobbied directly for Chinese government-controlled China National Offshore Oil Corporation's unsuccessful bid to take over U.S. oil company Unocal. Brookings' Board also features three representatives from Goldman Sachs, which is avidly seeking new financial service opportunities in China. One of those representatives is John Thornton, Brookings' new Board Chairman, a former President and Co-COO of Goldman Sachs who is still listed as a senior advisor to the firm, and who is the personal bankroller of a new $5 million China Initiative at Brookings.
The Institute for International Economics, Washington's most prominent think tank devoted to

the global economy, lists on its Board Hills and Greenberg, plus David Rockefeller, United Technologies Chairman George David, Karen Katen of Pfizer, James Owens of Caterpillar, David O'Reilly of Chevron Texaco, and Edwin Whitacre of SBC.

The more conservative think tanks have also assembled Boards full of corporate notables. On the CSIS Board can be found Hills, David Rubenstein of the Carlyle Group (also a Board Member at the Council on Foreign Relations), Rex Tillerson of Exxon Mobil, and Neville Isdell of Coca Cola, along with Pickering, who serves as a "Distinguished Senior Advisor." AEI has recruited Lee Raymond of Exxon Mobil, Raymond Gilmartin of Merck, William Stavropoulos of Dow Chemical, and Kevin Rollins of Dell – which procures most of its PC parts from Taiwan and China.

The CSIS Board, however, cannot be fully understood without recognizing what might be called "The Kissinger Effect." Its members include the former Secretary of State, former National Security Advisor Brent Scowcroft, and former Defense Secretary William Cohen. All three have begun corporate consulting companies since leaving public life, and Kissinger and Scowcroft rely heavily on China-related business.

The Heritage Foundation's Board contains Microsoft Vice President Robert Herbold, and its Asian Studies Center Advisory Council is headed by trade consultant and former Commerce Secretary Barbara Franklin. Her bio specifies that "her historic mission to China in 1992, normalized commercial relations with that country and removed one of the sanctions – the ban on ministerial contact – that the U.S. had imposed following the Tiananmein Square uprising in 1989." Franklin also currently serves as Vice Chair of the U.S.-China Business Council.

More evidence of the corporations' think tank activities pertaining to China comes from their practice of supporting researchers with responsibilities relating to China or related fields. For example, at CSIS, former Kissinger & Associates executive Erik Peterson holds the William A. Schreyer Chair in Global Analysis. From this position, he also heads the "Seven Revolutions" team, which is identifying and analyzing "the driving forces of change shaping seven" of the world's major geopolitical regions, including East Asia. The chair is supported by the Chairman Emeritus of Merrill Lynch. China specialist Bates Gill, meanwhile, occupies the Freeman Chair in China Studies, which memorializes Houghton Freeman, son of another one of the founders of AIG.

Endowing such chairs – or fellowships – is popular with corporate funders – perhaps in part because the terms reinforce the impression of dispassionate academic inquiry. No one uses the form more than the Council on Foreign Relations. James Lindsay, its Vice President and Director of Studies, holds the Maurice R. Greenberg Chair, named after the former AIG Chairman and CEO. Elizabeth C. Economy is the Council's C.V. Starr Senior Fellow for Asian Studies – named after the foundation Greenberg controls – and Adam Segal is the Maurice R. Greenberg Senior Fellow in China Studies.

But Greenberg is not the only such active donor to the Council. David Braunschvig holds the

Bernard L. Schwartz Senior Fellowship for Business and Foreign Policy. The position is named after the aerospace executive whose Loral corporation reached a $20 million settlement with the State Department stemming from its admitted transfer to China of information relating to missile launches, and who was accused during the Clinton years of donating to Democratic campaigns in exchange for obtaining waivers of U.S. export control laws for satellite launch deals with the Chinese. Schwartz also funds a Council lecture series on "Business and Foreign Policy."
At the Institute for International Economics, Asia and global finance specialist Morris Goldstein holds a fellowship endowed by former J.P. Morgan Chairman and CEO Dennis Weatherstone, and Gary C. Hufbauer, a prominent advocate of new trade agreements with China and other countries, and a leading opponent of using economic sanctions in U.S. trade or foreign policy, is the Reginald Jones Senior Fellow, named after the late CEO of GE.

Although concrete examples of corporate funders pressuring think tanks to slant any research are exceedingly difficult to find, occasionally they break into the news. One China-related instance came in May, 2000. According to a Washington Post report, Maurice Greenberg threatened to cut off the Starr Foundation's support for the Heritage Foundation after analyst Stephen Yates published a paper suggesting that Congress postpone the China PNTR vote until Washington took several measures to strengthen U.S. security policies towards China.

Heritage President Edwin J. Feulner did not deny the claim when interviewed. Two months later, Yates – who did deny receiving any pressure from Feulner to change his views – and a colleague published a new paper titled, "How Trade With China Benefits Americans." None of the first paper's hard-line PNTR conditions were mentioned.

It is true, as Feulner has observed, that Heritage consistently has supported expanded trade with China despite its history of often fierce opposition to the People's Republic. But it is also true that in recent years, with the rapid expansion of bilateral trade and investment, the tension between viewing China as a possible military foe on the one hand and a promising economic partner on the other has increased exponentially. And despite their repeated warnings about the security challenges posed by Beijing already, it is also true that Heritage analysts never have questioned a U.S. trade policy that has showered this potentially dangerous China with literally hundreds of billions of dollars worth of hard currency, along with much advanced militarily relevant technology.

I personally witnessed corporate pressure for vigorous trade expansion with China as Research Director and then Fellow of the Economic Strategy Institute during the early and mid-1990s. ESI's corporate sponsors – which included Motorola, Intel, Chrysler, Corning, TRW, Honeywell, Texas Instruments, and AIG – were never shy about making clear to staff their views on China and other major trade policy issues. Just as important, however, it was understood clearly by staff that opposing any major funder on any significant issue could lead that company to withdraw its support.

Indeed, this last point is one of the most important to emphasize about how corporations wield their power through think tanks. The quid pro quos inherent in the relationship between funder and recipient are obvious to all. They require no explication. Researchers and other staff advance the interests of their supporters almost instinctively. And when questions arise about specific strategies and tactics, or about possible new initiatives, they seek the funders' input just as instinctively.

Business groups of course have every right to relate their views to U.S. officials and seek to influence American policy in every area. But two aspects of business lobbying that promotes Chinese interests pose particular problems for Congress and require a more vigorous response. The first concerns the business groups' practice of speaking out on non-business issues – a practice clearly made more effective by the hiring of former government officials with expertise ranging beyond economics. Boeing's hiring of former Under Secretary of State Thomas Pickering is clear example.

Congress must view such efforts much more skeptically than at present. Especially in the case of public companies – and I should point out here that virtually all of the companies belong to my organization are privately held – Members of Congress must keep in mind that the overriding obligation of their representatives is not to make the United States as such safer, stronger, or even more prosperous. Nor is their overriding obligation spreading democracy or even capitalism throughout China or around the world. Their overriding obligation – according to law and regulation – is enriching their shareholders. Especially in the course of public hearings, Members of Congress should be much more careful about soliciting the views of these companies on non-economic and business issues. When such views are volunteered, Members should do a much better job of reminding each other and the public just where the first loyalties of these spokesmen lie.

The second challenge posed by multinational companies' China-related activities concerns their funding of policy research. Members of Congress have every right to seek the views of think tank analysts funded by business groups. I of course am one of them – although the connections between the Educational Foundation for which I work and the business group with which it is affiliated is obvious from its name.

But Members of Congress must do a much better job requiring truth in advertising. Witnesses from think tanks and other research and educational organizations should be required to state whether they are funded by entities – whether corporations, foundations, or individuals – with significant, parochial stakes in the subject under discussion.

Members must be especially mindful that, although the business origins of think tank funding may be well known to them and to other Washington insiders, these links often are not well known to the general public. If these institutional relationships are not actively brought to the surface, most citizens who read about Congressional hearings in the media or on-line, or watch them on C-SPAN, will have no way of fully judging the credibility of witnesses.

Where one stands on an issue does indeed tend to depend on where one sits. Multinational corporations have many valuable insights to provide to policymakers, and their views should be sought on a continuing basis. Moreover, what is good for General Motors, as its former chief famously said decades ago, often is good for the United States. But when policymakers encourage corporate views to intrude and even dominate in areas where they are not even appropriate, and when they allow corporations to launder their special pleading through the scholarly trappings provided by think tanks, the public interest can be gravely damaged.

Nowhere has this been more true than in America's China policy. I commend the subcommittee for investigating this subject, and very much hope that this hearing will begin the process of solving this serious problem.